



# Treasury Financial Manual

Transmittal Letter No. 5

Volume IV

To: Treasury Tax and Loan Depositories

## 1. Purpose

This transmittal letter releases Volume IV Treasury Financial Manual (TFM). It issues codified instructions to guide financial institutions that qualify as Treasury tax and loan depositories and/or provide electronic tax deposit services.

## 2. Page Changes

### Remove

Table of Contents  
for Volume IV

IV TFM 1-1000

IV TFM 1-2000

### Insert

Table of Contents  
for Volume IV

IV TFM 1-1000

IV TFM 1-2000

IV TFM 1-2100

IV TFM 1-2200

IV TFM 1-2300

## 3. Effective Date

Upon receipt.

## 4. Inquiries

Direct questions concerning this transmittal letter to:

Directives Management Branch  
Financial Management Service  
Department of the Treasury  
3700 East-West Highway, Room 5C16  
Hyattsville, MD 20782  
Telephone: 202-874-9940

Date: July 14, 1999

Richard L. Gregg  
Commissioner



## Part 1—Chapter 2100

# FEDERAL TAX COLLECTIONS USING THE FEDERAL TAX DEPOSIT SYSTEM

---

**This chapter provides instructions and guidelines for depositaries that process Federal tax collections using the Federal Tax Deposit (FTD) System.**

---

### Section 2110—Applicability

Financial institutions designated as depositaries are bound by IV TFM and applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations at Title 31 of the Code of Federal Regulations, Part 203 (31 CFR Part 203). The Treasury Financial Manual (TFM), and its amendments, are available on the Financial Management Service's (FMS's) website: [www.fms.treas.gov](http://www.fms.treas.gov).

TT&L account for all FTDs over recognized insurance coverage. They must transfer FTDs not secured by collateral or recognized insurance coverage to the FRB before the end of the day on which they received the FTDs. The FRB provides instructions for same-day drawdowns.

On a business day, a depositary having an established cutoff time, after which items or deposits received are dated (for accounting purposes) and considered part of the next business day's work, applies the following procedures for accepting, processing and forwarding FTDs:

- If a depositary's normal business day cutoff is before 2 p.m. local time, it must accept FTD coupons until 2 p.m. FTD coupons accepted before the 2 p.m. cutoff are dated with the current day's date and included in the current day's AOC.
- The depositary must ensure that the date placed on the AOC and on each FTD coupon supporting the AOC is the same.
- If a depositary is open on Saturday but uses the following business day as an accounting date, it may date the FTD coupons with Saturday's date if it forwards the AOCs that day. Otherwise, the depositary dates the FTD coupons as of its next business day and includes them in that business day's AOC.

### Section 2115—Authority

Title 31 CFR Part 203 governs designation of Treasury Tax and Loan (TT&L) depositaries that maintain and administer TT&L accounts and/or note balances.

### Section 2120—Definitions

See IV TFM 1-2020 for definitions.

### Section 2125—Accepting, Dating, Forwarding and Adjustment Procedures for FTDs

#### 2125.10—General

Depositaries must pledge collateral before crediting FTDs to the

- The FTD cutoff must coincide with the depositary's normal business day cutoff, provided the normal business day cutoff is not earlier than 2 p.m. local time. For example, if a depositary's normal business day cutoff is 4 p.m. local time, it must accept FTDs until 4 p.m. The FTD coupons are dated with the current business day's date and reported under an Advice of Credit (AOC) dated the same business day. FTD coupons accepted after the 4 p.m. cutoff are considered part of the next business day's work, dated with the next business day's date and included in the next business day's AOC. Therefore, the depositary does not deduct these FTD coupons from the customer's account nor credit them to the TT&L account until the next day.

#### 2125.15—Forms of Payment

A depositary must accept tax payments in the form of cash, postal money order drawn to the order of the depositary, or a check or draft drawn on and to the order of the depositary with presentment of the FTD coupon. It may accept other forms of payment at its discretion, but it must absorb any float involved. When accepting FTD coupons, either over the counter or through the mail, a depositary must date-stamp these payments on the business date received. When requested, a depositary must issue a receipt to taxpayers making FTD payments in cash.

**2125.20—Acceptance**

A depository that accepts FTD coupons must accept FTD coupons from all customers or taxpayers that meet the standards set in Section 2125.

**2125.25—Corrected, Blank or Photocopied FTD Coupons**

If a depository accepts FTD coupons, it must accept FTD coupons on which the preprinted information has been corrected by the taxpayer. Also, it must accept substitute FTD coupons, Form 8109-B. The depository must not accept photocopied FTD coupons. It should instruct taxpayers with photocopied FTD coupons, or no coupons at all, to obtain Form 8109-B from the local IRS office.

**2125.30—Magnetic Ink Character Recognition (MICR) Encoding FTD Coupons**

MICR encoding the amount of deposit on each FTD coupon is encouraged. In addition to its benefit to internal processing, encoding reduces the volume of IRS requested adjustments. The bottom right-hand corner of the FTD coupon is the only area on the coupon that should contain encoded information.

*Note: Do not use check endorsers or similar devices on FTD coupons.*

**2125.35—Completion and Distribution of Treasury Form 2284: Advice of Credit**

Each business day, the depository consolidates all the FTD coupons received and dated that day. It calculates and places the sum of these coupons on the AOC. Additionally, the depository includes a machine listing of FTD amounts with the IRS copy. Depositories must maintain records to identify each FTD coupon with the associated AOC.

To accelerate the classification of Federal tax deposits and reduce the number of IRS requested adjustments to depositories' accounts, a depository should include no more than 100 FTD coupons in each AOC.

**(1) Depository Copy.** A depository retains the depository copy for its records. It must not release any taxpayer information, including name, deposit amount or taxpayer identification number, to anyone other than the IRS or FRB if applicable. Disclosure of this information is a violation of the statutory provisions of the tax disclosure laws.

**(2) FRB Copy.** The depository sends the original FRB copy of the completed AOC to the FRB by the fastest delivery method available. The FRB must receive it no later than 2 p.m. Managing Reserve Bank Head Office Local Zone Time (MRB Head Office LZT) on the following business day. Instead of sending the paper copy of the AOC, a depository may elect, or be required by the FRB, to transmit the AOC information electronically, either by Fedline or voice response. If the depository transmits the AOC information electronically, it does not send the paper copy of the AOC to the FRB.

**(3) IRS Copy.** Each business day, the depository sends the IRS copy of the AOC with the corresponding FTD coupons to its IRS service center immediately upon completion of the AOC. The IRS requests that the depository uses a priority mail method so it can classify customers' tax deposits promptly.

**2125.40—Ordering AOC Forms**

When a depository's AOC form supply reaches a 60-workday level, it should order AOCs from the FTD coordinator at the local IRS service center.

ter. Upon receipt, the depository should ensure that its name and American Bankers Association (ABA) number on the AOC are correct. It should report any discrepancies to the FTD coordinator at the local IRS service center.

Depositories must use AOCs sequentially and must not submit photocopies of AOCs. The depository should contact the FRB for special instructions if its supply is depleted, or nearly depleted, and a reorder has not arrived.

**2125.45—Record Keeping**

A depository must establish an adequate record of all Federal tax deposits to identify them in the event FTD coupons are lost in shipment. At a minimum, the record should show:

- Employer identification number.
- Amount of deposit.
- Date of deposit.
- Tax period ending date.
- Type of tax deposited.
- Employer name.

The depository may use its AOC copy for this purpose if the copy lists each deposit separately, showing the above information. Depositories are strongly encouraged to photocopy FTD coupons for use in contesting charges for stale and undated FTD coupons.

Depositories must retain records of FTD coupons and associated AOCs for 36 months from the business day accepted and/or presented.

**2125.50—Missing FTD Coupons**

A depository may need to reconstruct data on FTD coupons it has mailed to the IRS service center when the coupons cannot be located. For this reason, a depository must retain the records shown in paragraph 2125.45 for the required 36 months. In most instances the IRS, working with the FRB, is the first to discover missing FTD coupons and subse-

quently notifies the depository. If the depository is the first to discover that the FTD coupons are missing, it must reconstruct the lost shipment and contact the FRB as soon as possible.

### **2125.55—Use of the TT&L Account**

A TT&L depository credits FTD coupons to its TT&L account on the business date of receipt, providing there is sufficient requisite insurance and/or collateral. No other accounting method is acceptable. The funds are transferred from the depository's TT&L account to Treasury when the FRB debits the depository's reserve or clearing account, or the reserve account of an FRB correspondent member bank.

### **2125.60—Adjustments**

A depository must reconcile the total of taxpayer remittances and amounts encoded on FTD coupons to the amount on the supporting AOC. It must ensure that the required documents are properly routed to the FRB and IRS (see paragraph 2125.35). A depository also is responsible for promptly reconciling statements.

If an AOC is overstated or understated, the adjustment requires that interest on the understated or overstated amount is paid to the depository or Treasury, whichever was denied the use of funds, except as noted in paragraphs 2125.65 or 2125.70. If the adjustment process is delayed, or adjustments are made in error and must be reversed, interest continues to accrue. The interest rate applied is the TT&L weekly interest rate factor. These procedures maintain the "exchange of value" concept on which the adjustment principles are based. All FRBs apply these adjustment principles uniformly, systemwide, to all depositories except when the concept is abused. For charges against a depository, FRBs may not exercise discretion in waiving or reducing the resultant interest.

For unintentional charges against Treasury (inadvertently overstated AOC), the FRB pays interest on the overstated amount. For charges against Treasury that Treasury has determined are intentional (intentionally overstated AOC), the FRB does not pay interest on the overstated amount.

### **2125.65—Payments Made in Error**

A depository may receive a request from a customer or its agent for a partial or total FTD refund because of an overpayment or a payment made in error. The depository should advise the customer to contact the IRS.

### **2125.70—Uncollectible Checks and Requests for Refunds**

Each depository is expected to contact the taxpayer to obtain restitution for an uncollectible check, whether the check was drawn on that depository or a financial institution. If the depository is unsuccessful, it submits a request for a reversal to the FRB. The depository clearly must support the request for a reversal by documentation. The FRB requires the following information to process the adjustment:

- A copy of the check, front and back, with the reason it failed to clear.
- A statement of collection efforts made.
- The taxpayer's identification number.
- The AOC identification number.

### **Section 2130—Compensation for Services**

Currently, Treasury compensates Remittance Option Class 2 depositories, Note Option Class A depositories and all depositories participating in the Minority Bank De-

posit Program for processing FTD coupons.

### **2130.10—Computation of Compensation**

By the 10th business day of each month, the FRB computes the amount of compensation due depositories. It computes the compensation due by multiplying 50 cents by the number of FTD coupons processed by the depository. The IRS service center reports the number of coupons that a depository processes to the FRB.

### **2130.20—Payment of Compensation**

On the 13th business day of each month, the FRB credits the reserve or clearing account of the depository, or the reserve account of the depository's correspondent member bank.

### **2130.30—Reclamation Debt Offset**

Treasury may instruct an FRB to withhold payment of FTD fees to a depository with outstanding reclamation debt. A financial institution incurs reclamation debt when it cashes U.S. Government checks bearing forged or unauthorized endorsements. The FRB transfers withheld fees to FMS for offset against the TT&L depository's unpaid reclamation debt. The offset process continues until the reclamation debt, plus accrued interest, is paid in full.

---

### **Section 2135—Charges for the Improper Processing of Federal Tax Deposits**

#### **2135.10—General**

A depository must:

- Stamp the date it received the tax deposit and its name and location in the space provided on the face of the FTD coupon.

- Credit all Federal tax deposits to the TT&L account on the date of receipt, providing requisite insurance and/or collateral exist.
- Ensure delivery of the AOC to the FRB by 2 p.m. MRB Head Office LZT on the business day after the day the depository received the deposits supporting the AOC.

### **2135.20—Description and Effect of Delayed Processing**

Treasury charges a depository for the value of funds delayed and imposes a 2-percent (per annum interest rate) penalty. It computes the charge from the date that the FRB should have received the AOC supporting the FTD coupon(s) until the date the FRB receives the deposit.

Under the Treasury Tax and Loan Investment Program (TT&L IP), the FRB computes interest from the first business day after presentment of the FTD coupon. If a depository receives an FTD coupon but the FRB does not receive the AOC supporting that deposit in a timely manner, the Government loses the earnings value of that deposit for the number of calendar days it does not have use of the funds. The FRB imposes the following three charges to ensure proper processing of FTDs:

- Stale-dated FTD coupon charge.
- Undated FTD coupon charge.
- Selective charges.

### **2135.30—Computation of and Basis for Stale-Dated FTD Coupon Charges**

The FRB assesses a stale-dated coupon charge to a depository that forwards to the IRS coupon(s) having a date stamp earlier than the date on the supporting AOC. It determines the charges by multiplying the total delay in 1-day funds for the cycle(s), times the daily interest rate factor for stale-dated FTD coupons for the corresponding TT&L reporting cycle(s).

The FRB issues a monthly statement on or about the 10th business day of each month (see IV TFM 1-2040) detailing the charges to be processed and the basis for the computation. On the 13th business day of each month, the FRB debits the depository's, or designated correspondent's, reserve or clearing account for stale-dated FTD coupons.

### **2135.40—Appeal Process for Stale-Dated FTD Coupon Charges**

A depository may appeal a stale-dated charge by submitting a written request for an adjustment of the charge to the FRB's Fiscal Services Department. The FRB must receive the request no later than 90 calendar days following the date of the charge. The depository must include copies of the FTD coupons and AOC and must adequately describe the circumstances that warrant a reversal of a charge. It should not contact the IRS service center for copies of stale-dated FTD coupons. The IRS service center refers all inquiries to the FRB.

### **2135.50—Computation of and Basis for Undated FTD Coupon Charges**

The FRB levies a charge against any depository that fails to date-stamp an FTD coupon. It determines the monthly charges by multiplying the dollar amount of the undated FTD coupons for the cycle(s), times the interest rate factor for undated FTD coupons for the corresponding TT&L reporting cycle(s). The FRB assesses the charge for 2 calendar days.

The FRB issues a monthly statement on or about the 10th business day of each month (see IV TFM 1-2040) detailing the charges to be processed and the basis for the computation. On the 13th business day of each month, the FRB debits the depository's, or designated correspon-

dent's, reserve or clearing account for undated FTD coupons.

Treasury does not compensate depositories that receive per-item FTD processing fees for FTD coupons submitted without the required date stamp.

### **2135.60—Appeal Process for Undated FTD Coupon Charges**

A depository may appeal an undated charge by submitting a written request for a charge adjustment to the FRB's Fiscal Services Department. The FRB assesses a \$25 administrative charge for each coupon appealed.

The FRB must receive the request no later than 90 calendar days after the date of the charge. A depository should not contact the IRS service center for copies of undated FTD coupons. The IRS service center refers all inquiries to the FRB. The FRB determines if the undated FTD coupons were processed in a timely manner with no delay of funds to Treasury.

If a depository appeals the undated charges, and the FRB determines that there was no delay in funds to Treasury, the FRB reverses the undated charge. However, it assesses a \$25 administrative charge for each undated FTD coupon appealed, even if there was no delay in funds to Treasury.

If the FRB finds that the FTD coupon requested from the IRS service center was dated properly, it reverses the undated coupon charge and does not assess the \$25 administrative charge.

If a depository failed to date a large number of coupons, it should consider appealing only those individual coupons having a computed charge greater than the \$25 administrative charge. Contact the FRB's Fiscal Services Department to discuss this procedure.

### **2135.70—Computation of and Basis for Selective Charges**

A taxpayer penalized by the IRS for late payment of taxes may provide proof to the IRS that the payment was deposited in a timely manner at the depository. In these cases, the IRS abates the taxpayer's penalty and the FMS charges the depository for delayed processing. FMS advises the depository of the charge no later than 1 business day before the charge is debited. It instructs the FRB to debit the depository's, or designated correspondent's, reserve or clearing account for the selective charge.

FMS calculates the charge by multiplying the total dollar amount of the taxpayer's FTD coupon, times the number of calendar days delayed, times the interest rate factor for selective charges for the corresponding TT&L reporting cycle(s).

### **2135.80—Appeal Process for Selective Charges**

A depository may appeal any selective charge by submitting a written request for a charge adjustment to FMS. FMS must receive the request no later than 90 calendar days after the date of the charge. Send the appeal to the address listed in the contacts page.

The Director reviews the appeal within 45 calendar days of receipt and may unilaterally extend the deadline for issuing a decision. The FMS advises the depository, in writing, of the Director's decision to uphold the charge, reverse the charge or mandate another action. The Director's decision is final.

In the event of an over recovery or under recovery of the charge, Treasury reimburses, or instructs the FRB to credit or debit the reserve or clear-

ing account of the depository or its designated correspondent's account, as appropriate.

---

### **Section 2140—Computation and Collection of FTD Late Fees**

A depository must ensure the FRB receives the AOC by 2 p.m. MRB Head Office LZT on the business day after the day it received the deposits supporting the AOC. If the FRB does not receive the AOC by that time, it charges the depository a late fee.

#### **2140.10—Remittance Option Depositories**

The FRB determines the amount of the late fee by multiplying the total dollar amount of the late AOCs, by the daily interest rate factor for late AOCs for the period that the AOCs were late. On the second business day after the close of a TT&L reporting cycle, the FRB collects late fees due Treasury through the depository's, or designated correspondent's, reserve or clearing account. The FRB includes this information in the monthly statement (see IV TFM 1-2040).

#### **2140.20—Note Option Depositories**

Operationally, the FRB does not assess Note Option depositories an explicit late fee as it does Remittance Option depositories. Rather, the FRB credits Note Option depositories' note balances on the business day after the date on the AOC, regardless of when it received the AOC. The interest rate is the interest rate factor for the TT&L IP. The FRB does not itemize a separate FTD late fee on a Note

Option depository's monthly statement.

---

### **Section 2145—Temporary Secondary TT&L Accounts Due to a Merger**

Ordinarily, the FRB in the district where the depository's master account is located maintains the depository's primary TT&L account. A TT&L depository that has merged with a financial institution having operating branches located in a Federal Reserve district different from the head office may elect to establish secondary TT&L account(s). For up to 12 months after the effective date of the merger, these secondary accounts may operate as TT&L depositories under an option and class different from that of the primary account (see IV TFM 1-2330). Contact the FRB for more details regarding the maintenance of TT&L accounts.

The FRB maintains secondary TT&L accounts according to instructions and guidelines for TT&L depositories as set forth in this volume. However, authorized insurance coverage does not apply to the secondary TT&L account. The depository must collateralize 100 percent of the secondary TT&L account and note balances with acceptable collateral (see IV TFM 1-2350).

Unless specifically requested otherwise by the FRB, the surviving TT&L depository may maintain the nonsurvivor's TT&L account for up to 12 months after the effective date of the merger. The surviving TT&L depository may do this without its parent, or head office, completing the necessary forms for the nonsurvivor, if the parent institution has completed the necessary forms on its own behalf.

## ***Contacts***

***Direct inquiries concerning this chapter and appeals for selective charges to:***

Director  
Financial Services Division  
Financial Management Service  
Department of the Treasury  
401 14<sup>th</sup> St., SW., Room 313  
Washington, DC 20227  
Telephone: 202-874-6580



# TREASURY FINANCIAL MANUAL

## TABLE OF CONTENTS

Chapter	Section	Title
<b>1000</b>		<b>PURPOSE AND PLAN OF VOLUME IV</b>
	1010	Authority
	1015	Arrangement of the TFM
	1020	Transmittal Letters
	1025	TFM Bulletins
	1030	Distribution
	1035	Inquiries
		Contacts
<b>2000</b>		<b>FEDERAL TAX COLLECTIONS—OVERVIEW</b>
	2010	Applicability
	2015	Authority
	2020	Definitions
	2025	Tax Collection Systems Overview
	2030	Difference Between Financial Institutions and Depositories
	2035	Classification of Depositories
	2040	Statements to Depositories and Financial Institutions
		Contacts
<b>2100</b>		<b>FEDERAL TAX COLLECTIONS USING THE FEDERAL TAX DEPOSIT SYSTEM</b>
	2110	Applicability
	2115	Authority
	2120	Definitions
	2125	Accepting, Dating, Forwarding and Adjustment Procedures for FTDs
	2130	Compensation for Services
	2135	Charges for the Improper Processing of Federal Tax Deposits
	2140	Computation and Collection of FTD Late Fees
	2145	Temporary Secondary TT&L Accounts Due to a Merger
		Contacts

**2200**

**FEDERAL TAX COLLECTIONS USING THE ELECTRONIC  
FEDERAL TAX PAYMENT SYSTEM**

2210	Applicability
2215	Authority
2220	Definitions
2225	Electronic Federal Tax Payment System
2230	EFTPS Enrollment Processing
2235	Conditions for Making an EFTPS Payment
2240	Electronic Future-Day Federal Tax Payment Mechanisms (ACH)
2245	Electronic Same-Day Federal Tax Payment Mechanisms
2250	Interest Assessment for the Improper Processing of Electronic Federal Tax Payments
	Contacts

**2300**

**TREASURY TAX AND LOAN INVESTMENT PROGRAM**

2310	Applicability
2315	Authority
2320	Definitions
2325	Investment Program
2330	Changes of Option for TT&L Depositories
2335	Direct Investment (DI) Program
2340	Special Direct Investment (SDI) Program
2345	Computation and Collection of Interest on Note Balances
2350	Collateral Security Requirements
	Contacts